HARNESSING THE TRUE POWER OF CAPITAL: UNLOCKING THE GROWTH POTENTIAL OF THE LAST MILE

ANNUAL REPORT 2020
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THE UNITED NATIONS CAPITAL DEVELOPMENT FUND (UNCDF) MAKES PUBLIC AND PRIVATE FINANCE WORK FOR THE POOR IN THE WORLD’S 46 LEAST DEVELOPED COUNTRIES.
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The UN Capital Development Fund (UNCDF) makes public and private finance work for the poor in the world’s 46 least developed countries (LDCs).

With its capital mandate and instruments, UNCDF offers “last mile” finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. The “last mile” is where available resources for development are scarcest; where market failures are most pronounced; and where benefits from national growth tend to leave people excluded.

UNCDF’s financing models work through three channels: (1) inclusive digital economies, which connect individuals, households, and small businesses with financial eco-systems that catalyze participation in the local economy, and provide tools to climb out of poverty and manage financial lives; (2) local development finance, which capacitates localities through fiscal decentralization, innovative municipal finance, and structured project finance to drive local economic expansion and sustainable development; and (3) investment finance, which provides catalytic financial structuring, de-risking, and capital deployment to drive SDG impact and domestic resource mobilization.

By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty with a focus on reaching the last mile and addressing exclusion and inequalities of access. At the same time, UNCDF deploys its capital finance mandate in line with SDG 17 on the means of implementation, to unlock public and private finance for the poor at the local level.

By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile, UNCDF contributes to a number of different SDGs and currently to 28 of 169 targets.
FOREWORD

In September 2015, the 2030 Agenda and its 17 Sustainable Development Goals (SDGs) were unanimously adopted by every member state of the United Nations.

Upon approval of the ambitious SDG agenda, a global aspiration was born: an aspiration of a world where development would reach every country and community; every government and small business; every man, woman and child; an aspiration where we would leave no one behind. This aspiration had particular significance for the world’s 46 least developed countries (LDCs).

Five years removed from the rise of the SDGs, and after the onset of the most profound global health crisis in a century caused by the COVID-19 pandemic, the conversation has shifted towards preventing a lost decade of development for the most vulnerable people and communities in the world.

The economic impacts of the COVID-19 pandemic, and the very human impacts that have resulted, have struck communities around the world with remarkable harshness; however, the harshest impacts have been experienced by the communities, localities and countries that already were the most vulnerable. The global development and financial architecture have demonstrated limited ability to shield the world’s most vulnerable from the pandemic’s worst outcomes.

Local governments in the LDCs, which lack many of the fiscal tools and capabilities to generate their own financing, were hamstrung when it came to supporting COVID countermeasures on the ground. Financial service providers, which serve as critical agents of financial inclusion under normal circumstances, encountered significant difficulty in extending finance flows to those who need it the most. Small and medium sized enterprises (SMEs)— which are critical generators of jobs and incomes in most LDCs—would see their value chains come to a halt, their liquidity almost if not entirely lost, and their access to customers all but cease to exist.
And, as is always the case, the worst of the worst of these impacts were experienced by certain last mile segments: women, youth and smallholder farmers to name a few.

The COVID-19 crisis has exacerbated already pre-existing vulnerabilities of the LDCs, and it has highlighted that the current development finance architecture is not adequate to shield the world’s most vulnerable populations. New mechanisms and solutions are needed that can better contribute to the financing of local infrastructure projects and SMEs, while helping build inclusive digital finance systems and economies, to ensure that LDCs become more resilient and contribute better to SDG achievement.

For the UN Capital Development Fund, 2020 represented what may have been the most difficult challenge of its 50-plus year history: how to insulate last mile markets and communities in LDCs from the worst impacts of the COVID-19 pandemic while continuing to advance SDG achievement. In response to the most severe public health and global economic challenge of our time, UNCDF repurposed its capabilities, galvanized its global workforce and tapped its ethos for innovation to support and sustain the last mile communities that we are tasked with serving.

We responded with a year where our operations spread to 39 LDCs, provided inclusive financial and digital solutions to over 2 million people in 44 countries; supported 536 local governments in 42 countries; and oversaw an investment portfolio of 21 loans and guarantees, along with disbursing $30 million in strategic grants, which collectively unlocked $85 million in direct and catalytic financing along with an additional $48 million channelled through decentralized financing mechanisms.

Additionally, to assist countries in responding to COVID-19, UNCDF provided localized emergency grants benefitting over two million people, 60 per cent of whom were women. It supported the development of digital solutions that provided benefits and services to around 2.6 million people affected by the pandemic. But we also realize that more needs to be done. Leveraging the power of public and private capital to support SDG positive investments requires a paradigm shift, one that features innovative capital markets that finance development projects. Looking to the future, UNCDF will seek to scale up its direct provision of catalytic investment finance for SMEs and small infrastructure projects, while also further expanding its efforts to help build inclusive digital economies, and further help local authorities access climate finance and municipal investment capital.

In response to the public health and global economic challenge of our time, UNCDF repurposed its capabilities, galvanized its global workforce and tapped its ethos for innovation to support and sustain the last mile communities that we are tasked with serving.

PREETI SINHA
Executive Secretary

The COVID-19 pandemic exposed the stark choice that is ahead of all of us as a global community: commit to the important work of harnessing the true power of capital—to support development in the areas where the needs are greatest—or to remain in status quo and putting the cause of leaving no one behind and achieving the SDGs at risk. For UNCDF, the choice is clear as is our commitment to the global task of our time.
WHERE DID WE WORK

LOCAL DEVELOPMENT FINANCE

Bangladesh  The Gambia  Palestine  Zimbabwe
Benin  Guinea  Senegal
Bhutan  Lao PDR  Somalia
Burkina Faso  Lesotho  South Africa
Burundi  Mali  Tanzania
Cambodia  Mozambique  Tuvalu
Ethiopia  Nepal  Uganda
Ghana  Niger  Zambia

INCLUSIVE DIGITAL ECONOMIES

Bangladesh  Fiji  Malawi  Sierra Leone  Uganda
Benin  The Gambia  Malaysia  Solomon Islands  Vanuatu
Botswana  Guinea  Myanmar  Eswatini  Viet Nam
Burkina Faso  Indonesia  Nepal  South Africa  Zambia
Cambodia  Kiribati  Niger  Timor-Leste  Zimbabwe
China  Lao PDR  Papua New Guinea  Tanzania
DR Congo  Lesotho  Samoa  Togo
Ethiopia  Madagascar  Senegal  Tonga

INVESTMENT FINANCE

Myanmar
Tanzania
Uganda
Papua New Guinea

PREVIOUS PAGE: © GMB Akash
As such, UNCDF’s offer builds on its overall systemic value proposition to drive finance in more dynamic ways for poor people and excluded populations. UNCDF’s tools include supporting digital payments to enable key financial flows to continue through the crisis; boosting the capacity of local governments to accept and deploy emergency funding quickly to meet local needs; and injecting targeted funds into small and medium enterprises (SMEs) to stabilize local economies and accelerate recovery. UNCDF supported the development of the global UN framework for immediate socio-economic response to COVID-19 and worked closely with UN Country Team members on the ground to coordinate its support.

**Inclusive Digital Innovations for COVID-19 Response**

In response to the COVID-19 pandemic, UNCDF partnered with digital financial services and public sector organizations to tailor digital solutions that provided benefits and services to around 2.6 million people affected by the pandemic.

- For instance, in Uganda, UNCDF partnered with the country’s main ride-hailing company in Kampala to provide an e-commerce platform that connected local market vendors with customers. The project helped 18,000 boda-boda drivers keep their jobs, 800 vendors to continue generating revenues during the lockdown and allowed an average of 50,000 customers to be reached daily with food and goods delivery.

- UNCDF also leveraged its experience in launching challenge and innovation funds to identify, pilot and scale digital solutions for COVID-19. In Burkina Faso, UNCDF together with the Government launched a digital innovation challenge to find solutions in response to the pandemic. The challenge resulted in four innovations, including a mobile application that enables users to evaluate their symptoms and request rapid healthcare services. UNCDF supported similar innovation challenges in Benin, Ghana, and Senegal to support SMEs faced with marketing, payment and logistics issues due to the lockdown.

- With UNDP, the International Organization for Migration, and the World Bank, UNCDF supports a Member-State led global initiative—spearheaded by the Government of Switzerland and the Government of the United Kingdom—calling on policymakers, regulators, and remittance service providers to enhance physical and digital access to cross-border financial services, while bringing together public and private actors to innovate solutions that would improve remittance flows and reduce transfer costs during the ongoing pandemic.
Decentralized Financing for COVID-19 Response
UNCDF quickly repurposed its programmes and launched an e-platform to deliver COVID-19 emergency grants to local levels of government, building on its intergovernmental fiscal transfer system. Through such efforts, UNCDF supported over 2 million people, of whom 60 per cent were women, through its localized emergency grants.

- The funds were used by local governments to procure protective equipment, sanitize materials, construct isolation wards and support struggling SMEs in countries including Bangladesh, Lao People’s Democratic Republic, Mali, Mozambique, Senegal and Somalia.

- In Somalia, the COVID-19 grants expanded the local financing mechanism to eight new districts; the programme also supported local governments in participatory financial planning, public procurement, and fiscal monitoring.

- Leveraging its policy expertise, UNCDF also published global guidance notes on the role of local governments in providing COVID-19 emergency support as well as on the use of operational expenditure block grants at the local levels.

Investment Instruments for SME Stabilization
Many of UNCDF’s borrowers and guarantee parties were adversely affected by the COVID-19 pandemic. UNCDF responded by restructuring 11 loans to enable borrowers to recover from COVID-19 impacts; UNCDF’s borrowers remain committed to honouring their financial obligations.

Supporting Economic Recovery for Women in the COVID-19 Context
Together with UNDP, UNCDF offered a package of solutions including gender responsive assessments, capacity building and targeted investments. In Bangladesh, UNCDF replenished the credit guarantee fund established with the Bangladesh Bank to support economic recovery of affected women-led SMEs. In Uganda, UNCDF partnered with UNDP and UN Women to complete gender-sensitive local economic assessments in 24 districts and to provide support to recovery of women-led MSMEs.
LEAVING NO ONE BEHIND IN THE DIGITAL ERA: INCLUSIVE DIGITAL ECONOMIES

UNCDF recognizes that digital and financial access does not automatically translate into inclusion and resilience; therefore, it incentivizes partners and facilitates development of policies to promote financial resilience and inclusion.

Based on its global digital inclusion strategy, UNCDF adopts an inclusive market development approach to advance digital economies, focusing on supporting inclusive digital financial innovations, empowered customers, enabling policies and regulations, and open digital payments ecosystems.

With the adoption of its global strategy "Leaving No One Behind in the Digital Era" in 2019, digital finance is now the main channel for UNCDF to support financial inclusion. UNCDF in 2020 promoted the use and expansion of digital financial and other services to sectors such as agriculture, education, entrepreneurship and health; as a way to improve access, affordability and efficiencies to accelerate achievement of the SDGs.

Under the global digital strategy, UNCDF alongside its partners provided financial access and usage to some 2 million people in 43 countries. These efforts were driven by partnering with financial technology (‘fintech’) and other private sector actors to incentivize innovations in last mile markets.

By partnering with 94 financial service providers, 87 mobile network operators and fintech firms, 178 SMEs, and 61 public organizations, UNCDF supported the piloting of over 180 financial products and services, of which over 80 per cent were digital solutions.

UNCDF recognizes that digital and financial access does not automatically translate into inclusion and resilience; therefore, it incentivizes partners and facilitates development of policies to promote financial resilience and inclusion.
Supporting Policies and Regulations for Inclusive Digital Economies

Working with stakeholders at the national government level, UNCDF supports the development of policies and regulations to expand financial and digital inclusion. In 2020, UNCDF trained more than 75 regulators and provided focused technical assistance to 15 countries. For example, UNCDF supported the National Bank of Ethiopia to develop and adopt key directives allowing non-bank actors to provide an array of digital financial services including mobile money and use agent networks.

UNCDF also supported the revision of the Bank of Sierra Leone’s financial consumer protection guidelines to enhance consumer confidence in the financial sector as well as the communication between financial institutions and their consumers. This success has been recognized in the form of financial support from the European Union, the Government of France, and the Bill and Melinda Gates Foundation.
The Inclusive Digital Economy Scorecard (IDES)
UNCDF developed the IDES—a policy tool for governments to measure the development of, and help set priorities for, their country’s digital transformation. In 2020, UNCDF piloted the scorecard in four countries – Burkina Faso, Nepal, Solomon Islands, and Uganda – in partnership with the national authorities and subsequently introduced it in nine additional countries. Also, Cambodia, Myanmar, Lao People’s Democratic Republic and Viet Nam formally approved national strategies on financial inclusion developed with UNCDF support in 2020.

Focusing on the Real Economy
UNCDF continued to focus on expanding the use of inclusive digital finance innovations linked to the real economy of LDCs and beyond. In Benin, UNCDF in partnership with the national government supported the development and piloting of a digital payment service for rice farmers in five localities, resulting in a 32 per cent increase in mobile money accounts among farmers in the region. In Uganda, UNCDF supported the piloting of a digital solution that provided traceability of food and animals in the agriculture value chain, as well as the creation of other digital solutions that provide extension and advisory services for local farmers. These digital solutions have been used by over 37,000 farmers in the northern regions, of whom 41 per cent were women. In Fiji, UNCDF supported a mobile network operator to temporarily remove fees for remittances on their mobile money accounts in order to reduce the financial impacts of the COVID-19 crisis among migrants and their families. With such incentives and combined with the impact of the COVID-19 lockdown, the platform experienced a 104 per cent increase in digital remittance transactions in 2020.
IN FOCUS: THE CHANGING LANDSCAPE FOR MIGRANTS AND REMITTANCES

The pandemic’s effect on the flow of global remittances sent by migrants back home to low- and middle-income countries (LMICs) is projected to be one of sharp decline—a fall by about one fifth. The estimated 20 per cent slump represents US$ 109 billion in 2020. The hardship of COVID-19, experienced by migrants in the form of lost wages and employment—often without government safety nets in the countries that host them—represents a sizable dimension of the remittances crisis.

UNCDF collaborated with the International Association of Money Transfer Networks (IAMTN) to gather insights from remittance service providers on the specific nature of the pandemic’s impact on migrants and remittances. As well as highlighting the challenges faced by migrants and RSPs, the providers’ responses also reveal some of the initiatives they are undertaking to address these challenges. Finally, the insights also give reflections on the measures that can be put in place by policymakers and regulators. The research and publication is supported by the Swiss Agency for Development and Cooperation (SDC) and the Swedish International Development Cooperation (Sida).
of the world’s migrants work in countries where three-quarters of the world’s novel coronavirus cases have been reported.

90% of global remittances are transacted by these migrants.

20% projected decline in remittances in 2020. That equates to US $109 billion.

FIGURE 2  Remittance Outflows 2018 (US Millions)

DISCLAIMER: The designations employed and the presentation of materials on this map do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations or UNCDF concerning the legal status of any country, territory, city or area or its authorities, or concerning the delimitation of its frontiers or boundaries.
A CENTRE OF EXCELLENCE FOR LOCAL FINANCE: LOCAL DEVELOPMENT FINANCE PRACTICE

UNCDF serves as a centre of excellence of local government finance and local economic development finance in LDCs. This has been achieved by providing localized investment tools and tailored technical assistance to public and private partners, as well as serving as a thought leader in subnational financing and local economic development.

UNCDF has developed expertise and a track record in supporting development of domestic capital markets to enable longer term sustainable transformation and green investments. UNCDF also designs and supports the establishment of local public and private financial systems for local sustainable development and municipal growth.

UNCDF in 2020 supported 536 local governments, 131 SMEs, and 88 public organizations in 42 countries and completed 674 localized strategic investments to demonstrate the effectiveness of decentralized financing for climate adaptation, women’s empowerment, food security, health, and local economic development.
**TECHNICAL KEY**

- LD Theory of Change
- LEA Assessment
- Project Design
- Local Economic Development

**METRICS**

- Technical Performance Criteria, Measurement Collection
- Risk Mitigates
- Sustainability
- Compliance with Financial Restrictions

**IMPLEMENTATION PLAN**

- Funding
- TA Support
- Monitoring
- KM and Reporting
- Policy Support
- Legal

**OPERATING ENVIRONMENT**

- Economic Conditions
- Legal Environment
- Market Dynamics
- Industry Landscape

**BUSINESS MODEL**

- Financial Performance
- Ownership Structure
- Sustainability
- Operations and Management
- Compliance with Thematic Revisions

**INVESTMENT PORTAL**

- Strategic Importance
- Technology
- Valuation / Risk & Return
- Debt Providers, Co-investors, Equity
The Dual Key System

The centrepiece of UNCDF’s local development finance facility is the “Dual Key” system. The Dual Key system is a multi-factor assessment that enables UNCDF to determine whether a prospective project will receive financial support from UNCDF with the goal of unlocking further finance. The first “technical key” involves an assessment that considers the capability of the project to deliver impact in the form of local economic development, women’s economic empowerment, ESG or food security. The second “financial key” involves an assessment that considers the capability of the project to deliver financial impact in the form sustainability and follow-on investment potential.

As of December 2020, 176 active projects were considered for technical assistance of which 151 projects received technical and financial support, projecting structuring, due diligence and de-risking. 110 of those projects successfully passed through the LD Dual key system and reached readiness stage, of which 106 projects reached financial closure, representing formal approval for financing.
The International Municipal Investment Fund (IMIF)
UNCDF made progress in launching the International Municipal Investment Fund, a blended finance fund targeting urban and municipal infrastructure projects in the global South. The third-party fund is managed by Meridiam, a private asset manager. In partnership with United Cities and Local Governments, UNCDF has set up a technical assistance facility to help cities finalize the preparation of their projects and provide necessary support to ensure that cities meet the requirements for accessing resources. UNCDF inaugurated the first investment committee for the technical assistance facility, which approved the first batch of municipal projects in seven countries. Due to COVID-19 travel restrictions, UNCDF started the preparatory work virtually, while the core technical assistance work is expected to take place in 2021.

Supporting Stability and Socio-Economic Development
UNCDF in Uganda continues to support the consolidation of stability and socio-economic development in the northern-most districts of the country. In 2020, UNCDF conducted capacity building of 18 core districts, improving their performance in the mobilization, budgeting, and allocation of their finances. UNCDF also provided frameworks for integrating gender-responsiveness and equity in the local budgets, which have been adopted by 15 out of the 18 districts.

Municipal Investment Financing for Sustainable Local Development
In 2020, UNCDF introduced innovative financing to promote cross-boundary water cooperation, while also promoting peace and stability in the localities. In Freetown, Sierra Leone, UNCDF started to finance the construction of reliable water, sanitation, and hygiene facilities to deliver safe, affordable water to 75 per cent of the city’s residences and to safely collect and dispose 60 per cent of the city’s solid and liquid waste.

The investment is expected to demonstrate a successful model for financing sustainable urban water production and consumption in LDCs. UNCDF is also working with the Gambia River Basin Development Organization (OMVG) to design and pilot infrastructure investments in the agriculture, energy and water sectors in the basin region that borders The Gambia, Guinea, Guinea Bissau, and Senegal.
IN FOCUS: A UNIQUE, BESPOKE FUND FOR SDG FINANCE AT THE LOCAL LEVEL

The International Municipal Investment Fund is a unique, bespoke fund designed and set up by UNCDF and United Cities and Local Governments (UCLG) with the collaboration of the Global Fund for Cities Development (FMDV) to support cities and local governments (notably municipalities in developing countries including the least developed countries) in accessing national and international capital markets. It will provide cities and local governments with reimbursable funds to finance investment projects and programmes of general interest.

The Fund is managed by Meridiam, a private asset manager, with a target capitalisation of €350 million at first closing. Through a Technical Assistance Facility (IMIF-TAF), the UNCDF - UCLG/FMDV coalition will help cities to finalise the preparation of their projects and provide the necessary support to ensure that the city meets the requirements for accessing financial markets.

The aim of this facility is to provide technical assistance to cities to help them finalize their investment project and, where necessary, strengthen their capacity to access credit, so that their investment project can be presented to the Fund Manager, Meridiam, with the best chance of success. This technical assistance facility is designed to support cities with investment projects of less than USD 25 million. Cities with projects above this amount will be supported directly by Meridiam, specifically in order to structure their project file to support presentation to the Fund’s Investment Committee.

ABOVE: © John Rae
FIGURE 4  International Municipal Investment Fund

17 PARTNERSHIPS FOR THE GOALS
11 SUSTAINABLE CITIES AND COMMUNITIES
13 CLIMATE ACTION

Unlocking public and private sector finance for the poor

53+ years of working in LCD’s
+ local presence in 31 LDCs

Pre-investment technical assistance provider through the IMIF Technical Assistance Facility

Membership of over 200,000 local governments worldwide

Represents over 70% of the world’s population

A Partnership to Serve Municipalities

Represents and defends the interest of local governments

FIGURE 4  International Municipal Investment Fund
Mobilizing Capital for SMES, Financial Service Providers, and Local Infrastructure Projects: LDC Investment Platform

The need to provide innovative financial instruments, mechanisms and partnerships to help shift capital flows in favor of more SDG-positive investments into last mile settings has become powerfully evident.

Fully unleashing the development potential of the local private sector and small infrastructure projects will require dramatically improving access to the investment capital needed to fund them, as domestic and international financial institutions as well as investors often view them as too small or risky, and are not set up to service them.

By leveraging its ability to directly deploy concessional loans or guarantees into any level of private or public sector project, something unique within the United Nations Development System (UNDS), UNCDF seeks to demonstrate that investing in last mile settings creates positive development outcomes that can be commercially viable and scalable with the right blend of instruments and support. UNCDF expanded its portfolio in 2020 with five new loans and one new guarantee to support SMES, FSPs, and local infrastructure projects in LDC markets that are contributing to the SDGs and also possess commercial potential.

Since the launch of its new loan and guarantee policy in 2017, UNCDF has disbursed a total of 18 loans and three guarantees in areas of financial inclusion, food security, and green energy, spanning seven countries. The portfolio increased 45 per cent compared to 2019, totalling $4.1 million in disbursements and guarantee coverages.
**FIGURE 5** 2020 Outstanding Portfolio By Sector

- **1,074,519 (31%)** Food Security and Nutrition
- **931,548 (27%)** Green Economy
- **1,487,841 (42%)** Financial Inclusion and Innovation

**FIGURE 6** 2020 Portfolio by Country

- **1,000,000 (29%)** Myanmar
- **94,276 (3%)** Burkina Faso
- **650,000 (18%)** DRC
- **250,494 (7%)** Ethiopia
- **608,448 (17%)** Uganda
- **237,346 (7%)** Papua New Guinea
- **653,344 (19%)** Tanzania
- **1,487,841 (42%)** Food Security and Nutrition
- **931,548 (27%)** Green Economy
- **1,074,519 (31%)** Financial Inclusion and Innovation
UNCDF partners with an impact investment firm based in Geneva, Bamboo Capital Partners, to establish the blended investment vehicle called the BUILD Fund. The BUILD Fund is designed to attract commercial capital to finance SMEs in LDC markets that possess business and development potential, relying on an investment layer capitalized by concessional capital from governments and philanthropic organizations that insulated commercial investors from early losses. The vehicle is targeting $250 million: consisting of $50 million of “first loss” shares to absorb early losses and catalyze greater follow-on financing; $75 million in mezzanine shares and $125 million in senior “Class A” shares. The BUILD Fund is also part of SDG 500: a groundbreaking impact investment platform dedicated to financing the Sustainable Development Goals (SDGs). The platform’s objective is to raise USD$500 million through six funds to attract commercial investment to finance businesses in emerging and frontier markets.

In 2020, the Fund was formally incorporated and registered with the Luxembourg Companies Register as a reserved alternative investment fund with bilateral donors already committing to financing. Backed by a € 2 million commitment from the Government of the Grand Duchy of Luxembourg, UNCDF delivered the maiden investment into the BUILD Fund in December 2020.
Supporting the UN Development System
UNCDF extended its investment expertise and unique capital provision mandate to the United Nations Development System (UNDS) by deploying investment specialists in Benin, Ethiopia, Rwanda, and Senegal to support the Resident Coordinators and United Nations Country Teams on financing the SDGs. UNCDF’s country-based investment specialists, who will cover up to twelve African countries from their four duty stations, will work on unlocking private finance for sustainable development investments.

These investments will span across a number of sectors and SDGs, as supported by the programmatic activities of the different UNDS member agencies on the ground.

UNCDF will also work on fostering government reforms to attract additional investments and deepen financial markets that work for poor and vulnerable populations, alongside the United Nations Country Teams.

IN FOCUS: THE NAMA FACILITY-BLENDED FINANCE TO DELIVER CLEAN ENERGY IN THE GAMBIA
Since 2019, UNCDF and UNDP have worked together to support the building of a 10.5 megawatt solar power plant in The Gambia, with financing provided by the Nationally Appropriate Mitigation Actions (NAMA) facility. In 2020, UNCDF worked to lay the groundwork for the facility by establishing governance and operations systems, together with UNDP and national stakeholders. The project is now expected to launch the bidding process among independent power producers for the regional grids. To attract commercial capital in support of the bidding process, UNCDF is prepared to deploy a guarantee mechanism of approximately $10 million to de-risk the investments. Building on this experience, UNCDF together with UNDP has designed similar joint proposals for the NAMA facility donors to invest in climate change mitigation projects.
KEY THEMATIC FOCUS AREA:
WOMEN’S ECONOMIC EMPOWERMENT

UNCDF recognizes that harnessing the untapped growth potential of the world’s least developed countries (LDCs) requires confronting the distinct challenges women face to achieve financial agency and economic empowerment.

Such challenges include exclusion from economic resources, including financing; participation in informal economic sectors; local policies, laws and social norms that are often gender-blind and discriminatory; and the digital and energy divide that tends to impact women and girls. For this reason, women’s economic empowerment is a cross-cutting thematic area that runs throughout the entirety of UNCDF’s workstreams. UNCDF pursues women’s economic empowerment through two approaches: Inclusive Digital Economies and Inclusive Local Economic Development.

1. Inclusive Digital Economies

Through the Inclusive Digital Economies approach, UNCDF connects women and girls, along with households and small businesses to financial ecosystem that catalyze participation in the local economy while providing tools to climb out of poverty and to manage their financial lives. UNCDF partners with women as well as the public and private sectors to leverage technology and innovation in order to increase the number of women that earn money, control their money and have access to critical services.

UNCDF together with the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) launched the women MSME fintech innovation fund to develop digital solutions for women MSMEs in the region. The challenge resulted in funding ten solutions, which is expected to provide financial and business advisory services to some 5,000 women MSMEs. The digital solutions include an e-commerce platform for women MSMEs in Nepal, a digital business tracking platform tied with credit assessments for loans in the creative and personal care industries in Bangladesh, and financial and digital literacy solutions for women MSMEs in Cambodia.

In Myanmar, UNCDF partnered with fintech companies, microfinance institutions and banks to develop gender-smart products and services for remote and ethnic communities. The programme provided training on digital and financial literacy for over 120,000 rural women that opened over 35,000 new financial accounts. UNCDF also supported the development of the country’s first-ever digital lending platform using smart phone data to make credit decisions. And in five West African countries, UNCDF promotes financial inclusion and capacity building to support the school-to-work transition of youth, especially women.
2. Inclusive Local Economic Development

UNCDF’s Inclusive Local Economic Development capacitates localities through mainstreaming gender equity into policies and budgets, fiscal decentralization, innovative municipal finance and SME finance to drive equitable local economic development. Promoting the voice of women through local leadership and creating accountable local institutions is another important area of work.

Since 2018, UNCDF has initiated 25 localized investments on women’s empowerment unlocking an additional $3.5 million from local partners and directly benefiting over 32,000 women in the targeted countries. Furthermore, UNCDF in partnership with UNDP created a new platform for local development specifically tailored towards women and youth with the national SME promotion agency (ANPGF) in Togo, while continuing to support similar financing schemes with the Development Bank in Mali (BDM).

In the United Republic of Tanzania, UNDP together with UNCDF supported the establishment of a guarantee fund to leverage private sector financing for women’s groups in three local government associations. In Senegal, UNCDF continued to support the country’s Strategic Sovereign Investment Fund (FONSIS) through a dedicated women’s economic empowerment fund launched in 2019 to support gender-sensitive SMEs and public-private partnerships (PPPs). In Bangladesh, UNDCF together with UNDP and UN Women launched a full fledged country programme to enhance local capacities, reduce the structural barriers for women’s participation in the local economies and unlock domestic financing for women SMEs.

FIGURE 8  Distinct Challenges to Women’s Economic Empowerment in the LDCs

- **Women are more likely to be excluded from economic resources including financing**: Specifically in poorer regions around the world, women are at a higher risk of economic exclusion with structural barriers.

- **Informality and lack of appropriate skills**: Due to lack of training and appropriate skills, women often opt for economic opportunities in informal sector that often pay poorly with no job security and benefits.

- **The digital and energy divide remains a gendered one**: Most of the 3.9 billion people who are offline and without energy access are in rural areas, are poorer, less educated and tend to be women and girls.

- **Women businesses remain small**: Inadequate support and financing for women SMEs hamper their ability to grow and access bigger markets.

- **Local policy, law and systems**: Often local policies, laws and social norms are discriminatory. Local fiscal policies and systems of governance are often gender-blind, defined by a lack of women’s leadership in decision-making.

- **Inadequate local financing in gender responsive services**: Absence of infrastructure and related services that would otherwise strengthen women’s economic opportunities, increase their security and lessen the burden of unpaid work.
IN FOCUS: GENERATION EQUALITY FORUM

UNCDF in 2020 was chosen as global leader of the Generation Equality Action Coalition on Women's Economic Justice and Rights. The vision of the Generation Equality Action Coalitions is to deliver concrete and transformative change for women and girls around the world by addressing critical constraints. The Economic Justice and Rights (EJR) Action Coalition will focus on four specific target areas: prioritization of the “Care Economy”; preparing women and girls for “The Future of Work”; equalizing access for women and girls to productive resources; and ensuring that the rebuilding of economies, particularly at the local level, is gender-inclusive. UNCDF was specifically chosen to lead the EJR Action Coalition because of its dual, interlinked approach to achieving gender inclusive markets in the LDCs, through local finance and digital finance approaches.
KEY THEMATIC FOCUS AREA: CONFRONTING CLIMATE CHANGE AND SUPPORTING BIODIVERSITY CONSERVATION

UNCDF addresses climate change on two fronts – by advancing the delivery of clean energy and by supporting climate adaptation and resilience in last mile markets. UNCDF also utilizes innovative finance to support small businesses that advance biodiversity.

Clean energy
UNCDF aims to demonstrate how decentralized clean energy solutions can be both financially viable and highly effective in reaching last-mile customers. Our approach complements a traditional focus on grid expansion and connectivity to build inclusive energy markets, while at the same time replacing polluting energy sources and combating deforestation. In 2020, UNCDF partnered with over 70 financial and energy service providers, bringing the benefits of clean energy products to over 2 million people. Through the support and partnership of UNCDF, energy service providers were able to sell over 451,000 clean energy products in six countries in 2020. The clean energy products sold from the launch of the programme are projected to offset 1 million metric tonnes in carbon emissions. In Ethiopia, UNCDF together with UNDP set up a guarantee facility together with the Development Bank of Ethiopia that is providing credit to six energy small businesses in 2020; the project has also provided business advisory services to 15 energy SMEs. In the Democratic Republic of Congo, UNCDF launched an incubation project, which provided capacity building for 44 clean energy companies and selected five for a first round of financing.
Climate resilience
The Local Climate Adaptive Living Facility (LoCAL) provides a standard, internationally recognized country-based mechanism that is designed to effectively deliver domestic and international climate finance to the local level, in order to enable local governments to assess risks, plan, implement and monitor climate resilient development in the LDCs and other vulnerable countries. UNCDF combined its expertise in fiscal decentralization, local governance capacity building, and financing climate resilient infrastructure to deploy the LoCAL mechanism. In 2020, LoCAL was operational in 14 countries, while scoping and design for expansion was underway in an additional 13 countries. Since its launch in 2014, LoCAL has supported over 300 local governments in climate adaptive planning and financing, while executing 1,680 localized investments through its performance-based climate resilient grant system, which has contributed to enhancing local climate resilience for some 11 million people.

Supporting biodiversity
Almost half of the world’s coral reefs have been lost, threatening one of Earth’s richest sources of biodiversity and the livelihoods of a billion people. UNCDF partnered with UNDP and UNEP along with such private sector foundations as the Paul G. Allen Family Foundation, Prince Albert II of Monaco Foundation and BNP Paribas to create the Global Fund for Coral Reefs. The Global Fund for Coral Reefs is a mix of grant, concessional and commercial capital to fund capacities as well as support companies and projects that affect coral reefs globally, specifically to protect and restore coral reef ecosystems. As a $500M fund ($125M grant window and $375M investment window), the Global Fund for Coral Reefs will support the following revenue generating activities: eco-tourism; sustainable fisheries and aquaculture; blue carbon; waste management; recycling; water treatment; and alternative activities for subsistence and income.

Since its launch in 2014, LoCAL has supported over 300 local governments in climate adaptive planning and financing, while executing 1,680 localized investments through its performance-based climate resilient grant system.
IN FOCUS: THE LOCAL MECHANISM

The LoCAL mechanism helps local government authorities in developing and least developed countries access the climate finance they need to adapt to climate change. This includes international climate finance from funds like the Green Climate Fund (GCF). As of 2020, UNCDF supported five countries to unlock GCF resources, including Bhutan, Benin and Cambodia.

**Bhutan**
The Bhutan Trust Fund for Environmental Conservation (BTFEC) has gained accreditation as Bhutan’s first National Implementing Entity (NIE) of the Green Climate Fund (GCF). GCF accreditation will allow BTFEC to propose projects for GCF funding with support from the Gross National Happiness Commission (GNHC), the National Designated Agency (NDA) for GCF in Bhutan.

**Benin**
The National Fund for Environment and Climate (FNEC) has become a national implementing entity after the GCF Board approved its accreditation request in February 2019. Benin is the first country to have a national implementing entity directly engaged in LoCAL that was accredited by the GCF. As an accredited entity, FNEC is now in a position to propose projects to the GCF and access financing to implement projects approved by the GCF Board. Preparation of a funding proposal to the GCF to scale up LoCAL began in early 2020.

**Cambodia**
In November 2019, Cambodia’s National Coalition for Dialogue and Deliberation (NCDD-S) became the first national implementing entity dealing with local governments to receive GCF accreditation. NCDD-S will use its direct GCF access to channel adaptation finance to local governments using the country’s consolidated PBCRG system.
UNCDF’S strategic funding targets include: $25 million in regular resources per year, $75 million in other resources per year, and a $50 million one-time capitalisation of its LDC Investment Fund.

UNCDF regular (core) resources increased from $13.3 million in 2019 to $14.8 million in 2020. Revenues from other resources dropped from $94.5 million in 2019 to $66.9 million in 2020 but met the range of the 2020 milestone. The decrease is mainly due to large multi-year commitments signed in 2019, along with some partial impact of COVID-19 toward the fiscal position of key donors. UNCDF raised funds of $1.5 million for its LDC Investment Fund, the BRIDGE Facility, towards the one-time $50 million capitalization target stated in the Strategic Framework.

In terms of delivery, UNCDF expenditures increased 10 per cent, from $77.3 million in 2019 to $85.6 million in 2020. The increase is due to strengthening of programme delivery in local development financing systems, which increased from $30 million in 2019 to $34.8 million in 2020, especially the expansion of the local climate adaptation and municipal financing approaches.

UNCDF has been able to deliver its investments and services to 39 LDCs, up notably from 31 LDCs in 2019. The increase has come mainly from expansion of UNCDF local climate financing and municipal financing mechanisms, as well as digital inclusion policy acceleration activities. There has also been a gradual increase in non-LDCs supported by UNCDF activities. UNCDF support to non-LDCs has contributed to leaving no one behind in areas of digital inclusion and municipal financing, as well as promoting South-South and triangular cooperation.
In terms of delivery, UNCDF expenditures increased 10 per cent, from $77.3 million in 2019 to $85.6 million in 2020. The increase is due to strengthening of programme delivery in local development financing systems, which increased from $30 million in 2019 to $34.8 million in 2020.
## TABLE 1  Total Contributions Table

<table>
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<th>DONOR NAME</th>
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(*) UNDP CORE RESOURCES

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<th>Description</th>
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**Thought Leadership**
UNCDF’s policy advocacy, communication and outreach have positioned the organization strategically in the sustainable development financing space, notably as a recognized partner in the Global Investors for Sustainable Development alliance (GISD) and through publication of the third edition of the Blended Finance in the LDCs 2020 report, co-published with the OECD.

UNCDF also launched a business pulse survey to assess the impact of COVID-19 on SMEs in LDCs, which helped provide important insights for tailoring investments and policy support for the SMEs most in need. Findings from a UNCDF survey showed that 88 per cent of businesses in LDCs have substantially reduced their operations as a result of the COVID-19 pandemic, 24 per cent indicated they could not sustain their business for more than three months and that these disruptions affect female-led businesses disproportionately. The survey featured nearly 2,400 respondents representing all of the 46 least developed countries.
Secretariat Role
UNCDF also served as secretariat of the UNITLIFE fund, an innovative global financing instrument aimed at funding interventions tackling chronic childhood malnutrition. In 2020, UNCDF together with other United Nations partners supported the establishment of UNITLIFE’s governance and operational structures. The fund identified and dispersed grants for two pilot projects in Niger to build the capacities of local SMEs working with smallholder farmers. The projects plan to provide farmers with nutrient-rich biofortified seeds, establish a goat bank system and provide female farmers access to climate-smart agricultural techniques. UNITLIFE expanded its partnerships with financial institutions and fintech firms to unlock additional resources using methods such as micro-donations, crowdfunding and innovative charity events for its fight against chronic malnutrition.

The Better Than Cash Alliance, whose secretariat is hosted by UNCDF, continued to expand its membership to 75 public and private sector entities that have pledged to accelerate the adoption of digital payments to help achieve the Global Goals. In 2020, the Alliance supported the Government of Colombia to roll out an emergency relief digital payment scheme targeting 3 million households affected by the pandemic. The Alliance also released a new report on advancing women’s digital financial inclusion, published with the World Bank and Women’s World Banking; the report was endorsed by the G20 finance ministers, marking their commitment to drive women’s digital financial inclusion as part of their COVID-19 recovery efforts.

UNCDF also served as secretariat of the Secretary-General’s Task Force on Digital Financing of the Sustainable Development Goals, which culminated in the launch of the Task Force’s report “People’s Money” in 2020. UNCDF together with UNDP developed a joint offer to implement the Task Force recommendations, including a new joint initiative promoting a Dialogue on Global Digital Finance Governance.

Partnerships
UNDP is the main UN partner of UNCDF, with the two entities engaged in 16 joint programmes in 2020 and a range of collaborative exploratory and thematic initiatives, spanning such sectors as SME finance to support post-COVID recovery, e-commerce and climate insurance among others.

UNCDF partnered with other United Nations agencies in 10 countries under the umbrella of the Joint-SDG Fund—a UN-managed multi-partner trust fund—to promote inclusive and integrated financing approaches to accelerate SDG achievement. Many of the joint programmes support the design and implementation of Integrated National Financing Frameworks (INFFs), which support governments to mobilize, plan and allocate financing to accelerate the SDGs at the national level. Building on its strategic investments and financial market development, UNCDF worked to unlock new funding opportunities through public and private partnerships and through own-resource mobilization approaches in support of the INFFs.
IN FOCUS: FIVE YEARS OF THE LAST MILE FINANCE TRUST FUND

When UNCDF launched the Last Mile Finance Trust Fund (LMF-TF) in June 2016, the world looked very different. In September 2015, the United Nations adopted the first global development agenda, aiming to help every country reach the Sustainable Development Goals by 2030. The international financial system, eight years after the financial crisis, continued to stockpile liquidity in developed markets and overlook emerging markets, where the development needs are greatest. And the international development finance landscape continued to evolve, with consistent declines in financing of core resources to most UN aid agencies and increasing demands to justify official development assistance from even the most generous donors. In response to those conditions, the government of Sweden, through the Swedish International Development Cooperation Agency (Sida), was UNCDF’s partner in creating the LMF-TF, providing an anchor donation of just over $2.2 million.

As the LMF-TF celebrates its fifth anniversary, the donor pool has grown to eight donors: the Government of Andorra, the Norwegian Agency for Development Cooperation (NORAD), the Swiss Agency for Development and Cooperation (SDC), the Kingdom of the Netherlands, the Korea International Cooperation Agency (KOICA), the Nederlandse Financieringmaatschappij Voor Ontwikkelingslanden N.V. (FMO), and the Principality of Liechtenstein. Sida’s initial donation would catalyze follow-on donations of just over $55 million, fulfilling the promise of a pooled financing mechanism.
As the LMF-TF celebrates its fifth anniversary, the donor pool has grown to eight donors: the Swedish International Development Cooperation Agency (Sida), the Government of Andorra, the Norwegian Agency for Development Cooperation (NORAD), the Swiss Agency for Development and Cooperation (SDC), the Kingdom of the Netherlands, the Korea International Cooperation Agency (KOICA), the Nederlandse Financieringmaatschappij Voor Ontwikkelingslanden N.V. (FMO), and the Principality of Liechtenstein.
WHAT DID WE LEARN FROM THE COVID PANDEMIC?

The COVID-19 crisis, which has prompted national lockdowns, social distancing guidelines and disrupted regional and global value chains, has forced many businesses to endure a significant slowdown or stoppage of economic activities. In higher-income economies, businesses can apply for stimulus support to manage these unprecedented circumstances. But in more vulnerable markets, such as the LDCs, limited fiscal capacity makes such options difficult, thereby risking the suspension and extinction of many businesses, especially SMEs. This can have negative knock-on effects on unemployment levels, social unrest, conflict and forced migration. All of that being said, achieving the SDGs, recovering from the COVID-19 crisis and rebuilding inclusive and resilient economies will be virtually impossible for any LDC without SMEs.

Local governments are leading the COVID-19 responses around the world. They are on the front line of citizen engagement, service delivery and management of public space. Studies, testimonies and government responses from around the world have demonstrated that local governments’ preparedness, infrastructure, human capital capabilities, access to emergency funds, and coordination with central governments are among the key measures to containing the spread of the virus and ensuring speedy recovery. As prevention and containment measures are introduced, maintaining an adequate level of such services while ensuring compliance with restriction measures becomes the main concern of local governments. Thus, local governments are key to ensuring COVID-19 response protocols are implemented.

ANDERS BERLIN
Director
LDC Investment Platform

DAVID JACKSON
Director
Local Development Finance Practice

RIGHT: © UNCDF Mozambique/Mbuto Machili
The COVID-19 crisis has further increased the massive financing gap LDCs are facing to achieve the SDGs by 2030. A major disrupter and potential accelerator in attracting private capital is the digital finance revolution, which is transforming how private finance can be sourced, mobilized, deployed and monitored in ways that can reach the last mile and that were unthinkable just a decade ago. Over the past ten years, the digital revolution has not only transformed how people access and use financial services, but has also enabled the growing integration of finance with the “real economy” in such areas as clean energy, agriculture, entrepreneurship, health and education. This disruption has created rapid growth for a wide range of SMEs and business models that can leverage blended finance solutions to reach large scale. For example, energy service companies that use digital pay-go solutions have become a new and rapidly growing asset class for blended finance investors. In LDCs, energy service companies have become some of the major recipients of on-balance-sheet concessional lending, enabling follow-on investment by domestic financial institutions or international impact investors.

HENRI DOMMEL
Director
Inclusive Digital Economies Practice

RIGHT: © UNCDF Mozambique/Mbuto Machili
LOOKING AHEAD: INTENSIFYING OUR COMMITMENT; SCALING OUR SOLUTIONS

In 2020, UNCDF rapidly adapted to the challenges posed by the COVID-19 crisis, helping LDCs respond and move towards a more sustainable and resilient recovery.

With the COVID-19 pandemic reversing progress on poverty eradication and socio-economic development, UNCDF in the coming year and beyond will seek to intensify the deployment of its last mile finance solutions at the household, small enterprise and local infrastructure levels for the benefit of vulnerable groups, including women and youth, migrants and their families; and to do so in several strategic ways.

1. **Strengthen UNCDF’s Role as an Innovative Finance Institution within the United Nations Development System:** Innovation is the ethos of UNCDF—innovating finance models, digital finance tools and services, as well as approaches and facilities that create fiscal space at the local level. UNCDF will look to position itself as a provider of innovative solutions to fill financing gaps in support of SDG achievement in the Last Mile.

2. **Fully Capitalize and Operationalize UNCDF’s Financing Vehicles:** UNCDF will intensify its commitment to fully capitalize its on-balance sheet BRIDGE Facility with $50m, to allow for scaling up its catalytic financing support to higher risk, smaller ticket size SMEs and infrastructure projects in the so-called missing middle. This facility fills a critical gap in the development financing architecture. In addition, UNCDF will continue its support to fully operationalize the two third-party managed funds it has helped establish: the SME-focused BUILD Fund, which is managed by Bamboo Capital Partners; and the International Municipal Investment Facility (IMIF), managed by Meridiam with a focus on locally-driven infrastructure projects that are SDG positive.

3. **Create a Robust Pipeline of Investment-Ready SME and Infrastructure Projects and Support Them to Attract Finance:** UNCDF will look to consolidate and enhance its efforts to create a pipeline of investable infrastructure projects and promising SMEs that create benefits for last mile populations while helping to de-risk and support these ventures to attract investments. This includes a new effort to identify and nurture a new generation of growth SMEs in LDCs notionally named SDGCo 500.
4. **Advocate for the Purpose of Capital:** Enhancing the development potential of finance will require more than action. It will require advocacy and thought leadership. UNCDF will take on the responsibility of advocating for the importance of capital to support humanity generally and sustainable development in particular. In the context of the private sector, UNCDF will take advantage of its dual background in development and finance to be a lead advocate for impact investment.

5. **Define a New Strategic Framework to Respond to Unprecedented Challenges:** Through 2021, UNCDF will consult with UN member states and other partners to update and refine its unique value proposition as it designs its new Strategic Framework for 2022-2025. The new Strategic Framework will allow UNCDF to make its support fit for purpose to help LDCs achieve a resilient recovery from the COVID-19 crisis and to accelerate progress on the SDGs. In parallel, throughout 2021 UNCDF will also play an active role in supporting the preparations for the Fifth UN Conference on the LDCs in early 2022, advocating for an inclusive framework for last-mile financing in support of the next 10-year LDC Programme of Action.

With the COVID-19 pandemic reversing progress on poverty eradication and socio-economic development, UNCDF in the coming year and beyond will seek to intensify the deployment of its last mile finance solutions at the household, small enterprise and local infrastructure levels for the benefit of vulnerable groups.
UNCDF will take on the responsibility of advocating for the importance of capital to support humanity generally and sustainable development in particular.
The United Nations Capital Development Fund (UNCDF) makes public and private finance work for the poor in the world’s 46 least developed countries.